COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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Thomas Miller, County Executive Officer
County Executive Office, Placer County
175 Fulweiler Avenue
Auburn, CA 95603

Re: Community Development Resources Agency Review – Phase 2

The purpose of our review was (a) to obtain an understanding of the entity's internal control structure, assess the control risks, and, as appropriate, make recommendations for improvement; (b) to verify the accountability of County assets through review of the cash receipts, cash disbursements, and payroll processes and to ensure cash funds and trust funds are safeguarded; (c) to determine whether the accounting records, financial reports and reconciliations, and systems are adequate; and (d) to determine whether the agency has complied with specific laws, regulations and County policies.

Phase 1 of this review consisted of cash disbursements testing including credit card transactions, employee reimbursements, travel, training, cellular phone, fleet vehicle expenditures, capital assets and other assets inventory, as well as procurement and contracts which were reported on separately. Phase 2 of this review consisted of cash receipts, accounts receivable, payroll, legal and program requirements, and budgeting processes.

We interviewed staff at the Community Development Resources Agency (Agency) in Auburn and Tahoe and spoke with other County departmental staff as necessary. We also took a sample of accounting transactions related to these areas from fiscal years 2005 through 2009 for our testing. Based on the sample selected, our summary of findings and recommendations are as follows.

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Summary of Findings and Recommendations

Cash receipts

For cash receipts testing, we selected a sample of ninety transactions from a total population of approximately 9,000 from fiscal year 08/09 for our review. The following are our findings and recommendations.

Fee Changes

All users have the ability to change fees in PLUS. Due to the nature of the different types of activities and fees, as well as the system constraints of "locking down" fees, we determined this was reasonable. However, risk could be minimized with the use of comments and management review. Comments are required whenever a fee amount is changed, however there is no process to review all the fee changes and their comments.

We recommend the Agency continue development and implementation of a report that would run nightly and include all fee amount changes with the comments. The report should be emailed to appropriate supervisors and managers for review.

Agency Response:

The Agency agrees with the finding and recommendation. As noted by the Audit, all users of the PLUS system currently have the ability to change and alter fees. This ability to have so many staff members able to change fees is disconcerting to the Agency, and steps are being taken to limit the number of employees who have direct access to the manipulation of fees. A meeting was held with staff on October 22, 2009, and the Assistant Chief Building Official was assigned to work with the Agency's IT Supervisor to create a checks-and-balance system whereby only CDRA Managers have the access and ability to manipulate fees. Additionally, any manipulation of fees would require a double-check sign-off so no one employee could manipulate or change fees. It is anticipated a recommendation will be presented to the Agency Director in December 2009, then a course of action will be set to implement immediate changes.

The same issue exists with building permits, where fees are generally manually added using 'default fees'. As a result, the valuation can be updated or changed by all staff members. It is the Agency's intent to only allow managers to have the ability to manipulate fees.

As recommended, the Agency will continue to develop and implement a report that would run nightly and include all fee amount changes, including comments as to why a fee was changed. This nightly report would be reviewed by an Agency manager (other than a manager capable of manipulating fees), and that manager would be responsible for reporting any fee modifications to the Agency Director. This increased level of oversight will assure compliance with County rules and procedures, and it would address the issues raised by the Audit. The Agency will also work with other entities that use the KIVA system to see how they gain compliance.

Fee Code Errors

We noted the following:

- One instance in which the Plan Check Fee for an exempt agriculture building project was erroneously assessed at $20 each for electric and plumbing. According to the fee schedules, the fees should have been $40 each. The error was not caught during the Plan Check review process.
- One instance in which an overpayment of $9.58 was erroneously placed in a residential fee code instead of being charged to the overpayment/refund code.

We recommend the Agency create a policies and procedures manual that addresses specific types of transactions and particular fee codes and that users receive training to ensure funds are coded to the appropriate account classifications.

Agency Response:
The Agency agrees with the finding and recommendation. As a result of the instance noted above where the default fees were incorrect on an agriculture building, the PLUS system has been modified to assure such an error does not occur again. The overpayment placed in the incorrect fee code occurred early after the implementation of the PLUS system, and processes had not yet been documented, nor had training been conducted. The process has been added to the front counters procedures manual, and the error has not occurred since.

Voids

We noted the Agency recently implemented a void report that is emailed nightly to four individuals: the front counter manager, front counter supervisor and two accounting staff who review the report. One individual prints and signs the report, evidencing their approval. When we reviewed a void report as part of our observation of front counter procedures, we noted the signature of approval on the report was the same as the individual that created the voids.

We recommend when voids are made by the counter supervisor or manager, the void reports be approved by another individual preferably one of the two accounting staff that receive the nightly void report.

Agency Response:
The Agency agrees with the finding and recommendation. This issue was brought to the Agency's attention early on in the audit process, and the Agency has already updated its procedures related to the processing of void reports. The Agency now ensures that a manager other than the individual voiding the transaction signs off on the report.

Securities

All divisions within the Agency receive securities such as a CD, letter of credit, labor and materials bond, or faithful performance bond as part of conditions of approval on projects. The Building Department also receives securities on behalf of Tahoe Regional Planning Agency (TRPA), a federal agency, when it performs project reviews delegated by TRPA. We noted a lack of documented policies and procedures for the handling of securities. Many securities listed in the division's inventory lists date back to the 1980's and 1990's.

We recommend the Agency create written policies and procedures for securities including but not limited to initial requirements, acceptance, monitoring status of conditions, approval of release, etc.

Agency Response:
The Agency agrees with the finding and recommendation. The Agency's accounting staff will work with the CEO, Auditor's Office, and all Agency departments that require securities to write policies and procedures including requirements, acceptance, monitoring and release. The Agency currently reconciles its securities on a quarterly basis. The Policy and Procedures related to securities will be completed and implemented no later than December 31, 2009.

Accounts receivable

For accounts receivable testing, we selected a sample of 20 transactions from a total population of approximately 285 for our review. The following are our findings and recommendations.

We noted the following:

- Two instances in which we were unable to validate the accounts receivable transactions (billings to developers to recover certain inspection costs incurred by the County). No records supporting the calculations were made available to CDRA when the Engineering and Surveying Division was transferred from Department of Public Works to CDRA.
- CDRA does not have a formal policy or procedures to follow up or collect on its past due accounts receivable.

We recommend the Agency refer to the County's Accounting Policies and Procedures Manual for guidance on Delinquent Accounts and Bad Debt Write-Offs in the event all reasonable efforts have been made to collect monies owed to the County with no success. In addition, we recommend the Agency develop formal policies and procedures regarding the collection of outstanding accounts receivable, including referring delinquent accounts to the Revenue Services Division if needed.

Agency Response:
The Agency agrees with the finding and recommendation. The Agency is in the processing of developing a policy and procedures manual for accounts receivable and will complete the task no later than December 31, 2009. The procedures will include information on collection of outstanding accounts receivable, timelines of when staff should stop working on projects and the procedure and timing of referring delinquent accounts to Revenue and Reimbursement. The Agency will be working collaborateively with other County departments in developing these procedures to assure a consistent, countywide solution is identified.

Unreconciled Balances

We noted balances in various custodial funds and deferred revenue accounts that remain unreconciled since the transfer of the Engineering and Surveying Division from the Department of Public Works to CDRA.

We recommend the Agency refer to the Accounting Policies and Procedures Manual for guidance on Escheating and Refunding Unclaimed Funds in the event they determine there is no supporting documentation establishing ownership of the monies on deposit.

Agency Response:
The Agency agrees with the findings. The Agency's accounting division recognizes it has monies that should be return to applicants. Unfortunately, a majority of these monies are more than 10 years old, which is making identification and notification to these applicants difficult. The Agency, in consultation with County Counsel, will develop a plan for return or escheating of these dollars no later than December 31, 2009 and will complete the process by December 31, 2010.

Payroll expenditures

For payroll expenditures testing, we selected a sample of 50 payroll transactions from fiscal years 07/08 and 08/09 for our review. The following are our findings and recommendations.

Overtime/Compensatory Time Off (OT/CTO)

We noted the following:

- Fifteen instances of OT/CTO (out of 17 total instances of OT/CTO recorded) without documentation as required by County Counsel Code Chapter 3.04.240: "When overtime necessary to provide essential county service has been authorized by the department head, each employee working overtime shall submit to his or her department head a written statement within one working day, stating: 1. His or her name; 2. The date and hours overtime worked; and 3. The nature of the service performed during such overtime." None of the 15 instances satisfied requirement 3 and seven of 15 lacked evidence of department head approval at all, such as signature on the timesheet.
- Two instances in which non-management employees accumulated over 40 hours of CTO. This practice is disallowed by Chapter 3.04.210 without the express prior approval of the County Executive's Office.
- Three instances (for a total of 3 hours) in which one employee recorded vacation/sick time and earned OT/CTO on the same day.
- Six instances (for a total of 25 hours) in which employees recorded vacation/sick time and earned OT/CTO during the same week.
- In the latter two instances, we were unable to determine if this was employer directed OT/CTO or whether the employee could have flexed time to avoid OT/CTO.

We recommend the Agency closely monitor and manage employee's use of OT/CTO, especially during pay periods in which employees use leave balances. In addition, in the event that OT/CTO is earned, it "shall be held to a minimum consistent with operation, and shall only be used to cover emergencies or where working employees overtime is more economical than adding regular or extra help employees" per Chapter 3.04.200. Any OT/CTO earned needs to have proper approval and documentation as provided in Chapter 3.04.200.

We recommend CEO clarify the definition of regular pay equivalents to reduce the cost of OT/CTO. Chapter 3.08.170 states "Paid time off for vacation, holidays, sick leave, and compensatory time taken shall be computed as actual hours worked for computation of overtime." According to the Fair Labor Standards Act (FLSA) employers are only required to pay overtime for hours worked after 40 hours of work in a workweek. "Idle hours" such as vacation, holiday, illness, etc. are not required to be credited towards overtime compensation. Therefore, the County could reduce costs for salaries and benefits by following the stricter FLSA guidelines.

Agency Response:
The Agency agrees with the Auditor's finding and recommendation. Early in 2007, the Agency implemented the use of a 'Comp Time/Overtime' approval process to assure proper documentation and approvals (refer to Attachment 1). As a result, all requests for OT/CTE are now approved by a manager consistent with County policies.

In regards to the finding regarding accumulation of more than 40 hours of CTO, the Agency was informed more than four years ago that CEO approval was no longer needed for excess accruals. If this is no longer the case, the Agency is open and willing to assure its policies are consistent with County rules and regulations.

The Auditor's finding points out the difference between the County's Chapter 3 ordinance and the Fair Labor Stands Act. The Agency has been following Chapter 3 guidelines. The Agency supports amendments Chapter 3 to not pay over-time if any leave time was used that week as allowed by FLSA.

CEO Response:
The County Executive Office agrees with the Auditor Controller with respect to reducing costs for salaries and benefits through application of overtime only for hours worked after 40 hours of work in a workweek. Past and current County practice in application of overtime is as stated by the Auditor Controller which is within the parameters of FLSA. Under the constraints of our current agreements, the CEO does not have the ability to unilaterally change this practice which would require negotiations with labor unions.

It should be noted that Chapter 3 is currently being updated by a core team of departmental staff including representatives from the County Executive Office, the County Auditor Controller, Risk Management, County Counsel and Personnel to identify inconsistencies in policy and practice, to provide for recommended policy changes and to provide a more clear, streamlined document for use by County departments. Recommendations will be provided to the Board of Supervisors *for consideration. It is anticipated that the work on Chapter 3 will be completed during the first quarter of 2010.*

Unpaid Hours (UPH)

We noted three timesheets with unpaid hours (UPH) recorded, however the employee had other leave balances available. In two of the instances, the UPH was explicitly disallowed by the supervisor on the leave slip; however the UPH was still recorded. UPH is not a type of leave balance – it should be used as a last resort to record 80 hours in a pay period in ACORN.

We recommend the Agency only allow the use of UPH when an employee has no other leave balances available.

Agency Response:
The Agency agrees with the finding and recommendation, although the recommendation appears to be in conflict with the "Time Reporting Guidelines for Unpaid Hours" distributed by the County Executive Office at the Department Head meetings in November/December 2009 (refer to Attachment 2). While the Agency agrees there is merit to utilizing Vacation/Sick Leave balances prior to utilizing UPH, Guideline No. 7 states, "Vacation and CTO should not be approved after-the-fact to cover unapproved absences (including sick leave) or to axsid the utilization of UPH.

As can be seen, there is a conflict with the Auditor's recommendation and this guideline that was distributed to all County Department Heads. The Agency is agreeable to working with the Auditor and the County Executive Office to implement a single, unified position.

As a separate issue, there are some existing limitations in the County's payroll system which required the UPH to be recorded even when a supervisor may have disallowed the use of UPH. In the two instances noted, a supervisor did in fact disallow the use of UPH. However, the County's payroll system mandates that hours of time be recorded for each employee for each pay period. In these two instances, the employee in question did not have vacation or sick leave to use, and the payroll technician had to use UPH to get the minimum requirement of 80 hours. This was done with management knowledge, and the payroll technician was not usurping or overriding a supervisor's directive. To assure such instances do not occur in the future, the Auditor's Office may want to consider a modification to the payroll system that would allow less than 80 hours to be recorded.

In the past, Agency employees, like many other County employees, used UPH as a third "leave bank" (vaction, sick leave, UPH). In November 2008, the County Executive Officer instructed all Department Heads that the use of UPH was an unacceptable practice; if an employee did not have sufficient vacation or sick leave hours to cover an absence, the use of UPH should be noted and accompanied with a supervisor's notation as to the reason why including, if warranted, follow-up personnel actions.

Based upon the November 2008 directive from the County Executive Officer, all Agency employees were informed the UPH could no longer be used as a third "leave bank", and that the *use of UPH would result in follow up personnel actions. With support from the Personnel Department and Risk Management, employees with low leave balances are counseled to understand the value in retaining leave balances. Dependant upon the actual incident involving the use of UPH, since November 2008, any Agency employee who has used UPH has been counseled and monitored to reduce/eliminate such usage. Agency managers will continue to work with staff to build up their vacation and sick leave banks so that the use of UPH is not needed.*

<u>Timesheets</u>

We noted the following:

- Three timesheets without employee signatures
- One instance where "Night Shift Differential" was paid to an employee, however nothing on his time sheet indicated such shift was worked.
- ACORN timesheets are not printed or saved electronically for those CDRA divisions that are not on self-service. Printed timecards from ACORN are required for all employees to ensure what was entered into ACORN agrees with the detail submitted by employees.

We recommend the Agency review all employee timesheets for signatures, proper use of time reporting codes and sufficient supporting documentation. In addition, we strongly recommend the Agency transition to self-service time entry to eliminate duplication of efforts in timesheet preparation and that all ACORN timecards are either saved electronically or printed each pay period.

<u>Agency Response:</u>
The Agency agrees with the finding and recommendation for verifying for signatures and proper use of time reporting. An additional review of all Agency timesheets by the Agency's Administrative Technician, has been implemented to verify signatures. All documentation for changes made on timesheets are now included with the timesheet.

The Agency understands the benefits of ACORN self-service for timesheets and has been working with the Auditor's office to identify changes to make this more effective and efficient in the Agency. In the Agency's opinion, it takes more time for centralized payroll personnel to administer self-service than it does to duplicate data input. The Agency believes that many of these issues could be alleviated by updates to the ACORN system. The Agency would be pleased to be part of the solution and work with the Auditor and other County departments to make self-service more feasible.

The Agency has reviewed an excel spreadsheet developed by HHS, and the Agency has concluded this program could have great value to the Agency and the County as a whole. The Agency recommends this process be implement and supported at the County level to ensure accuracy of data input before verification by the Auditor's office. Some information that can and should be validated are: input is done in 40-hour increments, hours are input correctly for MTO and Holiday, inappropriate TRCs are not used (i.e., inmate oversight pay, etc). The HHS process is also customizable to specific departments and greatly enhances the ability to validate accurate and complete data input (i.e,. user codes and project numbers when required,etc.) The

Agency would request specific instructions on what should be validated when certifying payroll. The Agency is unaware of any adopted County procedure.

As recommended by the Audit, the Agency runs and saves a file of all timesheets for the current pay period.

Meal reimbursements

We noted $489 in taxable meal claims due to meetings in one pay period (9/26/08) for one Tahoe employee. This employee's fiscal year 08/09 taxable meal reimbursements (including the $489) totaled $1,215. This is the same employee who had $492 in employee reimbursements during the fiscal year 07/08 year previously reported in the Phase 1 report. From the $489 claim provided with the timesheet, it is unclear if sited meetings were conducted over meal time or how long the meetings were.

We recommend the Agency evaluate their business practices related to these routine meetings and consider if this is the most efficient and cost effective way to conduct County business.

Agency Response:
The issue of meal reimbursements is a repeat of an issue identified and addressed as part of the Phase 1 Audit Response and, as noted in the Phase 1 Audit Response, the Agency believes its business practices are in fact compliant with the County's Administrative Rules and Regulations regarding paying for meals, lodging and travel.

Based upon the comments/findings above, it is unclear if the issue is whether or not the meals in question were taxable, or if the issue is associated with the appropriateness of the expenditures. The former Agency Director concluded these expenditures were in fact compliant with the County's Administrative Rules (5b. Taxable Meal Allowance on page 6) which allows for meals to be reimbursed when an employee is traveling on official business that results in the employee being more than 30 miles away from his primary work location. In each of these instances, the employee had traveled to the Tahoe Regional Planning Offices in South Lake Tahoe, which is located 43 miles from the County's North Lake Tahoe office. Based upon the distance traveled, the expenditures were in fact compliant with the County's Administrative Rules. The Agency will continue to assure that proper documentation is provided to assure compliance with County rules and regulations.

Use of Leaves

We noted the following:

- Four timesheets with leave time recorded, however no leave slip was attached to the timesheet.
- An instance in which the Department Head did not provide a leave slip corresponding to an absence. The County does not have a policy on leave approval for Department Heads so some obtain approval from the appointing authority and others do not.

We recommend the Agency review all employee timesheets for sufficient supporting documentation such as leave slips, etc.
We recommend CEO consider a formal policy on Department Head leave approval.

Agency Response:
The Agency agrees with the finding and recommendation. To assure that all timecards include any associated leave slips, the Agency now flags all missing leave slips, including required leave slips for Department Heads, and ensure proper documentation is received. Similar to responses included in the Phase 1 Audit response, all Department Head timecards and leave slips are now signed by the Agency Director, and the timecard and leave slips for the Agency Director are now signed by the County Executive Officer. The Agency believes this new formalized process will assure compliance with County rules and regulations.

CEO Response:
The County Executive Office distributed an employee management and leave policy to all departments in December of 2008. Those policies are now being expanded and updated to incorporate best practices related to employee management. The County Executive Office will include a provision for leave requests by County Department Heads, in which all appointed department heads will submit leave requests to the County Executive Officer.

Segregation of Duties

We noted one individual who has access to employee PAFs (Personnel Action Forms,) enters time, approves time, and picks up paychecks from the Auditor-Controller's office. This is an improper segregation of duties between personnel, payroll, and timekeeping duties.

We recommend the Agency reassign the approval of time function to another individual who does not have access to time entry. In addition, having an employee who is not involved in the payroll process pick up paychecks could further strengthen internal controls over payroll processing.

Agency Response:
The Agency agrees with the finding and recommendation. The deficiency was brought to the Agency's attention early on in the Audit process. The Agency has taken action by having an Agency manager verify payroll instead of the technician who has access to time entry. This separation of duties will further strengthen internal control over payroll processing.

Inconsistency Among Divisions

We noted inconsistency among divisions regarding time entry. Planning is the only one completely on self-service. For the other divisions, the majority of employees enter time electronically into an Excel spreadsheet which is then replicated by the secretary or accounting technician entering the same time into ACORN.

We recommend the Agency train employees in the other divisions to utilize self-service in order to process payroll more efficiently and eliminate this duplication of efforts of timekeeping.

Agency Response:
While the Agency agrees with the finding and recommendation, the Agency has been working with the Auditor's office to make the ACORN system more user friendly and easier to implement in a decentralized environment.

The Agency would like to work with other County departments and the Auditor's Office to update the functionality in ACORN so self-service is not as labor intensive to support.

Employee terminations

CDRA does not have a formal employee termination checklist nor does it have procedures in place to ensure collection of all county assets (items such as keys, electronic key access devices, cell phones, County credit cards, Bluetooth's, digital cameras, other miscellaneous small tools, etc.) from terminated employees.

We recommend the Agency establish procedures for processing employee terminations including but not limited to collection of county assets, preparation of final timesheet, termination of systems access, etc.

Agency Response:
The Agency agrees with the Auditor's finding and recommendation. While the Agency itself did not have a formal checklist, the Department of Public Works did in fact have a checklist that is utilized when employees terminate service with the County. The Agency has modified the Department of Public Works checklist to be more appropriate as an Agency document. (See Attachment 3). These new employee termination checklist will be used with our next employee termination.

Legal and program requirements

During our review of CDRA's compliance with specific legal and program requirements, we noted CDRA has calculated an Indirect Cost Rate Proposal Overhead Rate for the Engineering and Surveying Division. This indirect cost rate is used for billings for the Engineering and Surveying Division, the Planning Division and CDRA.

We recommend the Agency calculate an indirect cost rate for the Planning Division using the expenditures in Planning's appropriation to ensure the accuracy of the Indirect Cost Rate Proposal Overhead Rate for the division.

Agency Response:
The Agency agrees with the recommendation. In the past several years, the Agency has developed overhead rates for each of the Agency appropriations using several different methods; however, when comparing the rates for the Engineering and Surveying Department, it was found

that the Planning Department's rates were well over 80 percent higher. It was decided at that time to use the Engineering and Surveying Department's rate for Planning as well. At the present time, the Agency has developed an ICRP for each appropriation and are currently working with the CEO and Auditor's Office to determine the possibility of using one rate for the entire Agency. It is our understanding that the CEO has worked with the Auditor and developed a draft external charge-out rate calculation, which we will implement as soon as it is finalized. To reinforce standardized practices, the policy not only outlines calculation methodology, but also provides for calculation review by the Auditor's Office.

The Agency would request instructions on what are 'unallowable' expenses and should be excluded from overhead calculations.

The Agency was presented with the Draft recommendation. This proves to be an extremely inexact science that produces a wide range of results. In preparing the ICRP for these instructions using FY2009 data, it resulted in Engineering and Surveying going from 77.92 to 70.12% and Planning from 167.36 to 139.75%.

The Agency has prepared a spreadsheet using the different methods outlined in the draft proposal. See Attachment 4 for the Agency's analysis of those results. The Agency recommends that the Auditor's Office provide guidance on which method to use to assure consistency with other County departments.

The Agency's responses to the recommendations identified in our review are described above. We did not audit the Agency's responses or the attachments provided by the Agency and, accordingly, we express no opinion on them.

We appreciate the courtesy and assistance of staff from all departments throughout the course of our review.

Sincerely,

Katherine J. Martinis

Katherine J. Martinis, CPA
Auditor-Controller

cc: Michael Johnson, Community Development Resources Agency Director
Nicole Howard, Internal Audit Manager
Holly Heinzen, Assistant County Executive Officer
Placer County Audit Committee

Attachments provided by the Agency:

Attachment 1: Comp/Overtime Approval Form
Attachment 2: Time Reporting Guidelines for Unpaid Hours
Attachment 3: CDRA Separation of Employment Checklist
Attachment 4: Indirect/Overhead Cost Analysis